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Retooling For Success In The **Post-Retirement Market**

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Recently, I authored a Product Development Section sponsored research report for the SOA entitled Implications of the Perceptions of Post Retirement Risk for the Life Insurance Industry > Marketing Opportunity But Requiring Retooling (http://tinyurl.com/4222kg5). The report offers a panoply of perceptions of, and implications for, "capturing" the post-retirement market. I would like to dig a little deeper into the "Product enhancements" retooling suggested in the report (starting on page 106), particularly "Reframing the power of life contingent annuities" on page 107, and encourage you to offer your thoughts and questions on the Product Development Group at LinkedIn (http://www.linkedin.com).

Overview

The overall implication of the study is that there are opportunities for providing financial services for the near- and post-retirement market that go well beyond just the boomers reaching retirement.

Most particularly, there is a need for:

- Advice for the numerous individuals who are:
  - Under-funded for retirement (including even the middle affluent); and
  - Under-cognizant of the financial risks involved.
- Financial instruments that can most effectively serve their needs.

The report also suggests that the insurance industry is uniquely positioned for success in this market, especially those that are willing to retool product, market, and/or distribution aspects of their business.

Product Enhancements

The product enhancements section highlights the need for retooling to make up for timing and marketing compromised offerings to date. This has resulted in selling less than optimal retirement solutions and limited market share (from a total retirement dollar perspective). Consumers are getting the message about risk, but still want their cake (the potential of equity returns).
As a result, the industry has offered frosting to make it tastier (downside protection), but doesn't clearly tell them the guarantees can have ingredients that may not be that healthy (costs, limits, gaps, etc.). This has been done instead of offering harder to sell veggies more suitable to their life situations (effective longevity and long-term care insurance funding mechanisms).

Reframing The Power Of Life Contingent Annuities

A cornerstone to success in this market is to retool the insurance industry's unique match for this market—life contingent annuities—to overcome consumer (and perhaps distributor) trepidation about it.

Behavioral studies cited suggest that presentation of life annuities need to be reframed to show how they effectively satisfy the need for an income stream in retirement. Others are revamping their investment portfolio optimization to recognize lifetime income fulfillment as a key objective, and life contingent annuities as an effective asset class in this regard. Several insurers have now set up behavioral finance departments along these lines.

While there have been many tweaks of life contingent products themselves, they remain much the same. Essentially, the policyholder pays the insurance company a lump sum and gets a lifetime income stream that contains little after-purchase recourse for the bet. The paper's contention is that this black box approach is too scary for new retirees facing the emotional and economically staggering prospects of no longer earning an income stream.

The paper introduces an unbundled/transparent view (analogous to Universal Life) to encourage retooling the product itself. A simple guaranteed form is presented as follows:

" this retrospective view brings new light to how the product works, not only for distributors and consumers, but also for manufacturers. "

The paper notes that this retrospective view brings new light to how the product works, not only for distributors and consumers, but also for manufacturers. This allows for development of additional features for satisfying the product's and market's demands.

This transparent presentation draws one to compare this product to other investments that do not offer living credits. Such a product with the same 5 percent guaranteed crediting rate through age 115 (if there was such a creature), allowing a guaranteed withdrawal of $3,404. As shown, living credits resulting from foregoing account balances on death allows guaranteed withdrawals to be increased to $9,925 a year! That is a pretty powerful statement of the leveraging of life contingent annuities. The result is significantly more income for as long as you live (regardless of how long you live) from the assets you have accumulated to fund a worry-free retirement. How many potential retirees, who are being told they don't have enough at a 4 percent "safe" withdrawal rate, would revel in that?

Another potential game changing feature that suggests itself is the possibility of offering guaranteed base interest and mortality rates, and current year declarations. For insurers this could mitigate longevity and interest reinvestment risk. For purchasers, it allows control of their investment prospects, especially key in today's low interest rate environment. It also permits a structure that offers inflation-like laddered layers of guaranteed lifetime income from the declarations.

Showing account values would also put pressure on innovation to allow access to them.

The format also paves the way for showing and explaining the differences between the deferral and payout periods, and clarifies differences between immediate life contingent annuities, deferred life contingent annuities, and lifetime income rider guarantees. Most importantly this format highlights the unique benefits that are proprietary to the life insurance industry life annuities, opening the door to their being widely adopted as a floor financial instrument for retirement.

Age	Begin Acct Value	Interest	Living Credits	Income Payout	End of Year Acct Value
70	$100,000	$5,000	$1,814	$9,925	$96,888
71	$96,888	$4,844	$1,959	$9,925	$93,766
80	$68,945	$3,447	$3,494	$9,925	$65,960
90	$42,150	$2,107	$5,594	$9,925	$39,925
100	$22,670	$1,134	$6,943	$9,925	$20,821
110	$5,649	$282	$8,328	$9,925	$4,334
114	$994	$50	$9,354	$9,925	$473
115	$473	$24	$9,429	$9,925	$0

[The illustration is of a life only payout annuity to a male age 70, assuming for simplicity that the pricing is based on a guaranteed 5 percent interest and the 2000 Annuity Mortality Table throughout, and results in a payout of $9,925 payable annually for a $100,000 purchase payment.]

With familiarity, insurance products in general might come into use with less trepidation by advisors and consumers.

Please note that while the aim of this discussion is to open further exploration of retooling life contingent annuities, I need to mention that I hold a United States Patent #5893071 about the unbundled approach. A lease on the patent is available on a nominal basis, so hopefully this discussion will not be inhibited from opening the door for more exploration within and outside the realms of the patent.

Discussion On LinkedIn

As noted above, I would love us to share thoughts and further exploration together. A Product Development Group has been set up on LinkedIn exclusively for members of the Product Development Section. I will initiate further discussion there along these lines and look forward to your thoughts and other discussion topics that you initiate there.